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TCRS (Teacher Legacy Pension Plan, a Cost-Sharing Defined Benefit Plan)



Bryan, Pendleton, Swats & McAllister, LLC
A Wells Fargo Company

Tennessee Consolidated Retirement System

Teacher Legacy Pension Plan, a Cost-Sharing Defined Benefit Plan

GASB Statement No. 68

Actuarial Report

Reporting Date: June 30, 2015

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Accounting Governance Background

Statement No. 27 of the Governmental Accounting Standards Board was amended by Statement No. 68 of the Governmental Accounting Standards Board. Statement No. 68 became effective for employer financial statements for the fiscal year beginning after June 15, 2014. Statement No. 68 establishes financial reporting standards for state and local government employers with pension plans that are administered through trusts or equivalent arrangements. The objective of this statement is to improve the usefulness of the information included in employer financial statements.

Purpose and Use

This report has been prepared exclusively for the Tennessee Consolidated Retirement System. Actuarial computations under Statement No. 68 are for purposes of fulfilling employer governmental accounting requirements, and may not be appropriate for other purposes. The calculations reported herein have been made on a basis consistent with our understanding of the statement. Bryan, Pendleton, Swats & McAllister, LLC is not responsible for consequences resulting from the use of any part of this report without prior authorization or approval. This report provides actuarial advice and does not constitute legal, accounting, tax or investment advice. Determinations for other purposes, such as funding, bond ratings, or judging benefit security, may be significantly different from the results shown in this report.

Actuarial findings in this report are based on actuarial assumptions which reflect expected plan experience. Although the deviation of the actual future plan experience and the expected experience inherently creates some uncertainty with the results, in our opinion the actuarial assumptions reasonably reflect the expected future experience of the plan. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. All of these factors can cause volatility in the Net Pension Liability (Asset) over time.

Data

The calculations shown in this report have been prepared using employee data (including covered-employee payroll) and plan documentation furnished by the Tennessee Consolidated Retirement System as of June 30, 2014. Plan asset information was furnished by the Tennessee Consolidated Retirement System for the twelve month period ending June 30, 2014. While we have not audited the data, we have reviewed it for reasonableness and internal consistency. We have made reasonable assumptions with regard to any incomplete records, and to the best of our knowledge, there are no material limitations to the data provided. A complete summary of the census data utilized in this report is available upon request.

Subsequent Events

We are unaware of any subsequent event after June 30, 2015 which would have a material effect on the results presented in this report.

Assumptions, Methods, and Procedures

The results presented in this report comply with the assumptions, methods, and procedures under Statement No. 68. The results are based on a June 30, 2014 actuarial valuation date, a measurement date of June 30, 2014 and a reporting date of June 30, 2015. All assumptions are selected by the TCRS Board of Trustees. Statement No. 68 mandates the use of the Entry Age Normal actuarial funding method.

Changes in Plan Provisions, Actuarial Assumptions, and Actuarial Methods

No changes were made to the plan provisions, actuarial assumptions and methods at the June 30, 2014 actuarial valuation date compared to the most recent funding valuation completed as of July 1, 2013.

Summaries of the plan provisions and actuarial assumptions can be found in the Basis for Valuation section of this report and in the Tennessee Consolidated Retirement System actuarial valuation funding report as of July 1, 2013.

Professional Qualifications

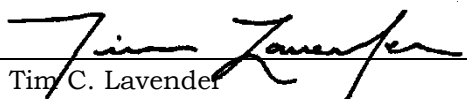
This report has been prepared under the supervision of Justin C. Thacker, a member of the American Academy of Actuaries, a Fellow of the Society of Actuaries, and a consulting actuary with Bryan, Pendleton, Swats and McAllister, LLC, who has met the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions herein. To the best of our knowledge this report has been prepared in accordance with generally accepted actuarial standards and our understanding of Government Accounting Standards Board Statement No. 68, including the overall appropriateness of the analysis, assumptions, and results and conforms to appropriate Standards of Practice as promulgated from time to time by the Actuarial Standards Board, which standards form the basis for the actuarial report. We are not aware of any direct or material indirect financial interest or relationship that could create, or appear to create, a conflict of interest that would impair the objectivity of our work. The undersigned are available to provide supplemental information or explanation.



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July 29, 2015

Date



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July 29, 2015

Date

Summary of Plan Provisions

The actuarial valuation includes all benefits provided by the Tennessee Consolidated Retirement System to the current active and inactive plan members. Benefit provisions include retirement, death and disability benefits. If applicable, post-retirement cost of living adjustments are included. Please refer to the Tennessee Consolidated Retirement System actuarial valuation funding report as of July 1, 2013 for a complete summary of plan provisions.

Summary of Actuarial Assumptions and Methods

Investment Rate of Return

7.5 percent per annum, compounded annually

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rate of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rate of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocations
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		<hr/> 100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three techniques described above.

Discount Rate

7.5 percent per annum, compounded annually

Paragraph 29 of Statement No. 68 provides for an alternative method to be used other than the projection of the pension plan's fiduciary net position based on projected contributions, benefit payments and investment earnings. The current contribution policy requires contributions of the normal cost plus a closed amortization of the unfunded liabilities (not to exceed 30 years from when the unfunded liability was created). In addition, the employer has a documented history of contributing 100 percent of the actuarially determined contribution requirement. The discount rate utilized assumes that employee contributions will be made at the current applicable rate and that contributions from the employer will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the pension funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on these assumptions and the actuarial methodology adopted, the employer's fiduciary net position is expected to remain positive and to be available to make projected future benefit payments of current active and inactive members and to cover administrative expenses. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Actuarial Valuation Method

All liabilities and normal costs shown in this report are calculated based on the Entry Age Normal method.

Asset Valuation Method

Fair Market Value

Amortization Method for GASB Statement No. 68

Level Dollar

Amortization Period for GASB Statement No. 68

Investment gains or losses are amortized over five years. Experience gains or losses and changes in actuarial assumptions are amortized over the average working lifetime of all participants. Plan amendments are recognized immediately.

Additional Assumptions

Please refer to the Tennessee Consolidated Retirement System actuarial valuation funding report as of July 1, 2013 for a complete summary of actuarial assumptions.

Selection of Assumptions

The TCRS Board of Trustees selected the assumptions described above based on the review of plan experience in conjunction with an experience study conducted as of June 30, 2012. A complete plan experience study is conducted every four years.

GASB Statement No. 68

This section presents specific information required under Statement No. 68. The information in this report is to satisfy the employer reporting for the pension plan. This section contains the following:

- Summary of Key Actuarial Assumptions for Statement No. 68
- Employees Covered by Benefit Terms at June 30, 2014
- Contributions
- Schedule of Changes in the Net Pension Liability (Asset)
- Sensitivity of Net Pension Liability (Asset) to Changes in the Discount Rate
- Pension Expense (Income) and Deferred Outflows/Inflows of Resources
- Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
- Schedule of Contributions

Fiduciary Net Position is the amount of assets available for benefits in the Pension Plan.

Total Pension Liability is the plan liability determined using assumptions listed in the Summary of Actuarial Assumptions.

Net Pension Liability (Asset) is the difference in the Total Pension Liability and the Fiduciary Net Position.

Summary of Key Actuarial Assumptions for GASB Statement No. 68

Reporting Date	June 30, 2015
Measurement Date	June 30, 2014
Actuarial Valuation Date	June 30, 2014
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar
Asset valuation method	Fair market value
Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of living adjustments	2.5 percent, if provided

Employees Covered by Benefit Terms at June 30, 2014

Inactive employees or beneficiaries currently receiving benefits	46,162
Inactive employees entitled to but not yet receiving benefits	30,376
Active employees	<u>76,379</u>
Total	152,917

A complete summary of the census data utilized in this report is available upon request.

Contributions

June 30, 2014 employer contributions	\$348,539,254
Employer contribution rate	8.88%

Schedule of Changes in Net Pension Liability (Asset)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balance at June 30, 2013	\$20,300,590,638	\$18,654,956,315	\$1,645,634,323
Service cost	376,350,644		376,350,644
Interest	1,511,902,551		1,511,902,551
Differences between expected and actual experience	46,024,805		46,024,805
Contributions-employer		348,539,254	(348,539,254)
Contributions-employee		197,481,087	(197,481,087)
Net investment income		3,054,152,027	(3,054,152,027)
Benefit payments, including refunds of employee contributions	(1,036,481,214)	(1,036,481,214)	
Administrative expense		(4,010,510)	4,010,510
Net changes	897,796,786	2,559,680,644	(1,661,883,858)
Balance at June 30, 2014	\$21,198,387,424	\$21,214,636,959	\$(16,249,535)

Sensitivity of Net Pension Liability (Asset) to Changes in the Discount Rate

The following represents the net pension liability (asset) calculated using the stated discount rate, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (6.50%)	Current Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability (Asset)	\$2,740,667,933	\$(16,249,535)	\$(2,298,678,326)

Pension Expense (Income) and Deferred Outflows/Inflows of Resources

	Pension Expense (Income)
Service cost	\$376,350,644
Interest	1,511,902,551
Contributions-employees	(197,481,087)
Projected investment income	(1,380,579,047)
Recognition of experience (gain)/loss	6,574,972
Recognition of investment (gain)/loss	(334,714,596)
Administrative expense	4,010,510
Pension Expense (Income)	\$(13,936,053)

For the year ended June 30, 2015, the recognized pension expense (income) is \$(13,936,053). At June 30, 2015, deferred outflows of resources and deferred inflows of resources related to pensions are from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$39,449,833	\$0
Changes of assumptions	0	0
Net difference between projected and actual earnings of pension plan investments	0	1,338,858,384
Total	\$39,449,833	\$1,338,858,384

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Outflows (a)	Inflows (b)	Amount Reported (a) + (b)
2015	\$6,574,972	\$(334,714,596)	\$(328,139,624)
2016	6,574,972	(334,714,596)	(328,139,624)
2017	6,574,972	(334,714,596)	(328,139,624)
2018	6,574,972	(334,714,596)	(328,139,624)
2019	6,574,972	(334,714,596)	(328,139,624)
2020	6,574,972	0	6,574,972
Thereafter	6,574,972	0	6,574,972

Development of Deferred Outflows and Deferred Inflows

	Original Amount	Date Established	Original Period	Amount Recognized in Expense	Deferred Outflow Amount	Deferred Inflow Amount
Experience (gains) / losses	\$46,024,805	6/30/2015	7	\$6,574,972	\$39,449,833	\$(0)
		Total		\$6,574,972	\$39,449,833	\$(0)
Investment (gains) / losses	\$(1,673,572,980)	6/30/2015	5	\$(334,714,596)	\$0	\$(1,338,858,384)
		Total		\$(334,714,596)	\$0	\$(1,338,858,384)
Assumption changes	\$0	6/30/2015	0	\$0	\$0	\$(0)
		Total		\$0	\$0	\$(0)

Schedule of Changes in the Net Pension Liability (Asset) and Related Ratios

	for fiscal year ending June 30, 2015 (year shown is measurement date)									
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Total Pension Liability										
Service cost	\$376,350,644									
Interest	1,511,902,551									
Changes of benefit terms	0									
Differences between expected and actual experience	46,024,805									
Changes of assumptions	0									
Benefit Payments, including refunds of employee contributions	(1,036,481,214)									
Net Change in Total Pension Liability (Asset)	897,796,786									
Total Pension Liability (Asset) - beginning	20,300,590,638									
Total Pension Liability (Asset) - ending (a)	\$21,198,387,424									
Plan Fiduciary Net Position										
Contributions - employer	\$348,539,254									
Contributions - employee	197,481,087									
Net investment income	3,054,152,027									
Benefit Payments, including refunds of employee contributions	(1,036,481,214)									
Administrative expenses	(4,010,510)									
Other	0									
Net Change in Plan Fiduciary Net Position	\$2,559,680,644									
Plan Fiduciary Net Position - beginning	18,654,956,315									
Plan Fiduciary Net Position - ending (b)	\$21,214,636,959									
Net Pension Liability (Asset) - ending (a) - (b)	\$(16,249,535)									
Plan Fiduciary Net Position as a % of the Total Pension Liability	100.08%									
Covered-employee payroll	\$3,925,131,835									
Net Pension Liability (Asset) as a % of covered-employee payroll	(0.41%)									

Schedule of Contributions

	fiscal year ending June 30									
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Actuarially determined contribution	\$348,539,254									
Contributions in relation to the actuarially determined contribution	348,539,254									
Contribution deficiency (excess)	\$0									
Covered-employee payroll	\$3,925,131,835									
Contributions as a percentage of covered-employee payroll	8.88%									

Notes to the Schedule Relating to the Actuarially Determined Contribution

Employer contributions for the year ended June 30, 2015 are based on the results of the July 1, 2013 actuarial valuation. Accordingly, governmental employers utilize the following notes to the schedule relating to the Actuarially Determined Contributions when presenting 2015. If 2015 is not presented, then a separate set of notes would apply.

Actuarial cost method	Frozen initial liability
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	8 years
Asset valuation method	10-year smoothed within a 20 percent corridor to market value
Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of living adjustments	2.5 percent, if provided